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MEDIEVAL TRADERS AS INTERNATIONAL CHANGE AGENTS: A COMPARISON WITH TWENTIETH CENTURY INTERNATIONAL ACCOUNTING FIRMS

Abstract: The International Accounting Standards Committee's (IASC) exposure draft on "Comparability of Financial Statements" has increased the awareness of the need for international changes in accounting standards. Since the IASC cannot mandate these changes, the accounting community needs to learn how to communicate, adopt and implement changes. This paper discusses an important aspect of the change process, the change agent. The first part of the paper presents an historical example of an important group of international change agents, the Jewish traders of the Middle Ages and early Renaissance. Parallels are then drawn between the Medieval Jewish traders and modern international accounting firms. Finally, the potential for accounting firms to act as change agents is discussed in the context of concepts from theories of social change.

INTRODUCTION

The internationalization of accounting standards has become an increasingly important issue as international financial transactions have increased. International capital transactions have now reached the level of one trillion dollars per day [Cutter, 1989]. International change in accounting has come to a crucial point with exposure draft E32, "Comparability of Financial Statements," issued by the International Accounting Standards Committee (IASC). Prior to E32, IASC sought international harmonization of accounting standards by recommending alternatives that were most accepted in practice, and by avoiding conflict with the accounting standards of the most influential of its 77 member countries. This approach, while reducing accounting alternatives and providing greater stan-

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dardization, minimized the need for major changes in the standards of individual countries, particularly the standards of the most influential countries. However, E32 demonstrates that IASC is now willing to directly challenge standards of powerful member countries. For example, E32 does not recommend certain of the USA's standard methods of accounting for acquisitions of companies or goodwill. This more assertive international standard setting by the IASC will require a much greater degree of international change if member countries are to abide by IASC's standards. Since IASC has no authority to mandate accounting changes in member countries, E32 raises the process of change in international accounting to a higher level of importance and difficulty.

The purpose of this paper is to discuss the role and importance of change agents (those who influence change), in an international setting during times critical to the development of accounting. The first part of the paper provides an historical example of change agents who were essential to the development of double entry accounting — Jewish traders of the Middle Ages and early Renaissance. The second part of the paper discusses the possible impact of major international accounting firms on current international accounting changes. This second part of the paper uses basic concepts of social change to explain why the major accounting firms can be effective change agents, but does not consider the change role(s) these firms *should* play. Furthermore, the influences on accounting of other possible international change agents, such as financial exchange institutions, international brokers and political bodies are beyond the scope of this paper.

MEDIEVAL AND EARLY RENAISSANCE JEWISH TRADERS

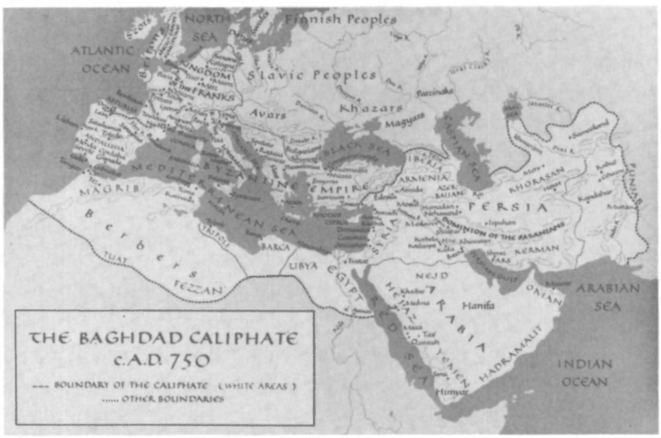
This section discusses the importance of the interaction between Italy and the Moslem Empire in the establishment of the conditions necessary for the development of double entry accounting. The effective international role of the Jewish traders during this important period in the development of accounting provides an historical example for comparison with twentieth century international accounting firms as international change agents.

Environment of Tuscany and the Italian City-States

After the conquest of Spain in 715 AD and Sicily in 825 AD, the Moselm Empire was by far the dominant military, commer-

cial and cultural power in the Mediterranean (see Map 1). Geographically, the birthplaces of double entry accounting, Tuscany, Genoa, Venice and Florence, were ideally situated for trade throughout the Mediterranean and even the Far East. However, until the last Crusade in 1271 AD, the naval and land

MAP 1



military power of the Moslem Empire made direct trade by Italian merchants, at best, very difficult. In addition, the Papacy, which was extremely influential in Italy during this entire period of time, forbade trade with the Islamic people.

In spite of these difficulties, trade began to flourish between Italy and the Moslem Empire through the use of Jewish traders, who could interact peacefully with both Christians and Moslems [Ferguson, 1944, p. 158; Gabrieli, 1963, p. 55; DeSomogyi, 1968, p. 64; Udovitch, 1970, pp. 227-228; VonGrunebaum, 1970, p. 6; Watt, 1972, p. 7; Lindberg, 1978, p. 13]. By the middle of the thirteenth century seven necessary antecedent conditions and other "energizing" or favorable conditions [Littleton, 1966; Stone, 1969; Frishkoff, 1970] existed in Italy (see table 1, page 110), and double entry accounting began to develop. Nearly all of the antecedent and energizing conditions developed through contact with the Moslem Empire, in which the antecedent conditions for modern accounting had existed since 825 AD (see table 1, page 110).

Some of the contact with the Moslem Empire which helped develop antecedent conditions were academic or cultural. An

Table 1
Approximate Dates of Littleton's [1966] Antecedents in the Moslem Empire and Italy

	Moslem Empire	Italy
Paper and Writing	800 AD	1154 AD
Arithmetic	825 AD	1202 AD
Money	696 AD	1252 AD
Private Property	Ancient	Ancient
Credit	787 AD	1230 AD
Commerce	Ancient	1100 AD
Capital	757 AD	1230 AD
Favorable Circumstances [Stone, 1969; Frishkoff, 1970]	800 AD	1252 AD

1) The presence of Littleton's [1966] conditions had to be fairly extensive.
2) Use of Littleton's seven conditions or factors had to be practical (e.g. writing on marble tablets was not practical).
3) The seven conditions had to be generally accepted.
4) There had to be an adequate base of wealth and opportunity for trade.
5) There had to be an adequate level of education.
6) Certain psychological factors had to exist. A mentality of growth, not stagnation, had to exist.

Note: The dates for this table come from many sources. The most important sources are Ashtor [1976], Chatfield [1968], Coulson [1964], DeSomogyi [1968], DeRoover [1944], Durant [1950], Ferguson [1944], Gabrieli [1963], Hitti [1963], Lindberg [1978], Martinelli [1977], Panikkar [1963], Peragallo [1938], Von-Grunebaum [1970], and Watt [1972]. (Throughout this paper many of the statements and ideas are synthesized from several writings, and sometimes only the most relevant references are given.)

example is the development of the second necessary antecedent for double entry accounting, arithmetic — an efficient means of computation. The Italians labored with Roman numerals, while Moslems used Hindu (now often called Arabic) numerals, and Islamic mathematicians such as Al Khwarizimi (also known by his Greek name, Algorasmus) developed algebra, decimals, and negative numbers. Until Leonardo Fibonacci of Pisa (also known as Pisano) studied under a Moselm master in Algeria and published *Liber Abaci* in 1202 AD in Florence, Italian math was too clumsy[1] for double entry accounting [Watt, 1972, pp. 33, 63-64; Hitti, 1963, pp. 98-99, 123, 153-154; Lindberg, 1978, pp. 150-151; Peragallo, 1938, p. 32; Dorsey, 1931, p. 652].

[1]Peters [1978] proposes that part of the reason Italians developed double entry accounting was a fear or distrust of negative numbers. With double entry accounting, there is no need to use negative numbers.

Although the academic interchanges between the Moslem Empire and Italy, such as the development of arithmetic, were important, most interactions which affected the development of antecedents of accounting in Italy were commercial. Jewish traders were necessary intermediaries in virtually all commercial contacts. Some of the more important types of commercial contacts between Moslems and Italians which Jewish traders facilitated will be described next.

Commercial Interactions Between Moslems and Italians Related to Antecedents of Double Entry Accounting

The first antecedent, writing, had to become practical [Frishkoff, 1970], and writing did not become practical until paper was introduced. Chinese prisoners of war taken to Samarkand (formerly the capital of Uzbek, a Central Asian country now a part of the USSR) began to teach Moslems the art of making paper from flax and other fibers in 751 AD. The craft spread throughout the Empire, and some of the plants were run by Jewish managers [VonGrunebaum, 1970, p. 101; Ashtor, 1976, pp. 99-100]. This "bambacing" paper was introduced to Italy by 1154 AD and made recording economic transactions practical [Durant, 1950, p. 236; Martinelli, 1977, p. 10].

The third factor was money or currency. Although some commercial bank notes existed before 1252 AD in Italy, they were never used extensively as money [DeRoover, 1944, pp. 382-383]. The first real European currency was the florin, initially coined in Florence in 1252 AD, and it became the basic medium of exchange [Peragallo, 1938, p. 18]. To add credibility and confidence, the florin was minted as a very close replica of the basic Moslem currency, the dinar, since Moslem currency was the only currency known by the Europeans at that time. The minting of the gold florin is a good indication of how strong trade between Italy and the Moslem Empire had become, because virtually all gold was produced in lands controlled by Moslems, and the minting of a gold currency in Europe would only have been possible if Moslems were actively trading gold to Europe [Levtzion, 1973, p. 131; Hitti, 1963, p. 144].

The fifth antecedent was credit, which was available in the Moslem world after 767 AD when Islamic schools of law debated the legality of loans and interest [Durant, 1950, p. 226; Udovitch, 1970, p. 77]. Indigenous populations normally ran businesses in the Moslem Empire, and commercial banks which made loans, usually run by Jewish bankers, were prevalent by 800 AD

[Gabrieli, 1963, pp. 56, 127; Panikkar, 1963, pp. 131-132; DeSomogyi, 1968, p. 64]. Although some credit existed in Italy by 1171 AD, it was almost exclusively used by governments to finance the Crusades [Hitti, 1963, p. 199]. Credit at the level described by Littleton [1966] did not exist in Italy until about 1230 AD [Chatfield, 1968, p. 27; Durant, 1950, pp. 208, 226]. It is difficult to determine the extent of the influence of Moslem concepts of credit in Italy, but the network of Jewish bankers was very effective, and some influence is likely to have existed. One indication of how influential Moslem credit processes might have been is that the Arabic word for promissory note, **sakk,** is the etymological root word for our word **check** [Durant, 1950, p. 208].

Littleton's [1966] sixth factor, commerce, is closely related to Frishkoff's [1970] "energizing circumstances." The most important stimulation of Italian commerce was the Crusades, beginning in the last part of the eleventh century. The Europeans acquired new tastes for products from the Holy Lands and the East. They traded raw materials such as lumber and iron for cotton and wool goods from Egypt, for oriental rugs, oranges, sugar cane, precious metals and stones, pearls from the Persian Gulf, and for glass, perfumes and oils, among many other items. So great was the demand for Moslem goods that Italian merchants arranged to sell weapons to the Saracens during the Crusades to maintain the flow of goods from Islamic countries [Durant, 1950, p. 617].

This paper does *not* assert that accounting methods in the Moslem Empire were directly influential in the development of accounting in Italy. The paper only argues that there was influence through the antecedents of accounting. This is partially because the actual nature of accounting in Islamic lands seems to be a mystery. The author has been able to find only conjectures about accounting in the Moslem Empire. For example, Durant [1950, p. 629] states "The accounting methods of Imperial Rome, lost in western Europe in the seventh century, continued in Constantinople, were adopted by the Arabs, and were revived in Italy during the Crusades." Durant [p. 225] also suggests that accounting in Moslem lands was very important, because the Vizier, subordinate in power only to the Caliph, was directly in charge of taxation and accounts. Udovitch [1970, pp. 237-238], describing legal discussions of Moslem commercial accounts, believes " . . . such accounts were quite detailed . . . We may justifiably assume that records and accounts approximating those kept by the eleventh and twelfth century Geniza

merchants already existed in the eighth century Near East." Goitein [1967, p. 204-209] states that the Geniza accounts, kept by Jewish merchants, were not as detailed as those kept by Italians in the late Middle Ages. The direct influence of Jewish and Moslem accounting on the accounting of Italians (rather than indirect influence through antecedent conditions) in the late Middle Ages, if any, has not been successfully explored. Perhaps this is in part because, as Lindberg argues [1978, p. 12], there has been a strong tendency for western historians to minimize or ignore the influence of the Islamic culture.

The Effectiveness of Jewish Traders

The Jewish traders as a group may not knowingly have acted as change agents. However, Jewish people of the Middle Ages and Renaissance were " . . . marginal to both Christians and Moslems . . . " and " . . . became teachers and emissaries bringing Arab learning into the Christian world . . . " They became " . . . powerful cultural ambassadors and cosmopolitanizers" [Boorstin, 1983, pp. 150 and 162]. Because of the military and religious conflicts that impeded commercial development, it is very unlikely that without the Jewish traders Italy would have been capable of developing modern accounting. The traders acted effectively as change agents. There are several reasons why the traders were able to work as international change agents.

1. The traders were very capable and were highly regarded for their commercial abilities and knowlege of brokering, finance, and communication.
2. The traders were well networked with each other and with powerful, wealthy people and groups.
3. The traders were able to operate within their networks without offending political, military or religious groups.
4. The traders fulfilled a need or purpose — to maintain and stimulate trade among international groups which had differences that were very difficult to resolve.

The parallels between Medieval Jewish traders and modern accounting firms are not perfect, but the factors which made the Jewish traders effective change agents provide a basis for discussion of modern international accounting firms within the framework of some current concepts of social change.

TWENTIETH CENTURY INTERNATIONAL ACCOUNTING FIRMS AS CHANGE AGENTS

This section considers the possibility of major international accounting firms as effective agents for change in international accounting standards by comparing these firms with Medieval Jewish traders. The discussion of the diffusion of international accounting standards in this section is mainly based on basic concepts from diffusion theories of social change.

Brief Introduction to Diffusion Theories

Diffusion theories come from many disciplines, including anthropology, sociology, education, health and medicine, communication, economics, marketing and organizational behavior. Diffusion theories address the communication, adoption, and implementation of technology and new ideas [Kimberly, 1981; Rogers, 1983]. Generally, diffusion is the " . . . process by which an innovation is spread through communication channels to members of a social system . . . over time . . . " [Zaltman et al, 1984, p. 14]. An innovation is any " . . . idea, practice or object that is *perceived* as new by an individual or unit of adoption" [Rogers, 1983, p. 11]. Change agents play a major role in diffusion theories. A change agent " . . . influences clients' innovation, decisions in a direction deemed desirable . . . " [Rogers, 1983, p. 28].

The breadth of diffusion studies is too great to review in this paper. However, some excellent studies of the diffusion of professional standards concern the medical profession [e.g. Becker, 1970; Gordon, 1974; Gordon, 1975; Counte, 1976; Higginbotham, 1988], and they hold some parallels for diffusion of professional standards in the accounting profession. For example, Higginbotham [1988] describes how international consultants "homogenized" the psychiatric practices of Southeast Asia. Homogenization as used by Higginbotham is similar to harmonization as used in international accounting, because both terms refer to increased standardization of professional practices. Therefore, Higginbotham does present some thoughts that relate to the increased harmonization of accounting practices with the assistance of the largest consulting firms in the world, the major international accounting firms.

International Accounting Firms as Change Agents

As were the Medieval Jewish traders, the international accounting firms are highly regarded for their business knowl-

edge and information management abilities.[2] They are capable of consulting in almost any aspect of business in almost every country in the world, including many "non-market" countries.[3] These firms must effectively deal with international business and cultural questions in a practical manner on a daily basis. Most of the firms have "firmwide" standards that transcend the standards of any specific country, including the standards of the USA. The international networking of the major accounting firms is more diverse and complex than networks of the Medieval Jewish traders, but firm networks contain the same elements that made the traders successful.

The Jewish traders were brokers of goods; international accounting firms are prestigious "brokers of information" [Kimberly, 1981, p. 96], and generally have access to powerful or elite organizations and people throughout the world. This is important because diffusion occurs better when elite or central people and organizations accept new ideas [Mohr, 1969; Becker, 1970; Hage, 1973; Kelley, 1976]. In addition, since accounting firms are external to their clients, they have natural and ready access to the "boundary spanning" personnel in client organizations who are critical to the acceptance of new ideas by organizations [Aldrich, 1981]. The firms are sensitive to the fact that key people in organizations must accept change before organizations can change [Kimberly, 1981, p. 88]. The accounting firms, therefore, are well situated to influence important organizations to adopt change.

Major accounting firms, like the Jewish traders, are adept at working across international boundaries without upsetting political or other powerful bodies. There may be several reasons for this. The line offices in the countries have usually developed over time within the cultures of the respective countries, so that they are more aware of cultural and political issues and pitfalls. This suggests that such line offices are "homophilous", i.e., share certain attributes such as beliefs, education, etc. [Rogers, 1983, pp. 18, 19]. Homophily enhances the effectiveness of communication and, hence, the ability to influence change. Also, accounting firms are accustomed to working in the background — working quietly but effectively with people and organiza-

[2]The large accounting firms are aware of the need to manage change, at least at the organizational level, as demonstrated by the fact that some firms, such as Arthur Andersen & Co., have "change management" consultants in their consulting divisions.

[3]For example, Ernst & Young and Arthur Andersen & Co. already have offices, though currently with limited operations, in China and the USSR.

tions. These firms have established and can use both weak and strong network ties, which is difficult and even somewhat of a paradox [Granovetter, 1973]. Strong ties foster strong but narrow and inflexible networks, and weak ties tend to produce inefficient but broad and flexible networks. The ability to use and integrate both types of ties can help major accounting firms affect change.

Finally, there is a need for change in accounting standards. Capital markets have become truly international, and accounting standards must keep pace. Neither the IFAC nor any other group can mandate international change in accounting standards, so individual countries and/or business organizations within those countries will have to be persuaded to change from within. Though there are many potential change agents in this process, major international accounting firms could become among the most influential.

CONCLUSION

This paper has presented an argument that Medieval Jewish traders were effective change agents in Italy during the events which led to the development of double entry accounting. Their effectiveness was due, at least in part, to four conditions:

1. The traders' abilities were held in very high regard.
2. The traders had very extensive networks.
3. The traders operated in their networks without offending powerful groups.
4. The traders fulfilled a strong need in international trade.

These same four general conditions apply to modern major international accounting firms. In addition, the accounting firms have many attributes which diffusion theories suggest could make them influential international change agents.

A variety of historical and theoretical concepts have been discussed in this paper, and some of this synthesis may appear to be speculative. Since part of the value of the study of history is to help analyze modern situations, which usually requires interpretation and speculation, this is not unusual. However, the need for change in international accounting is not speculative. Furthermore, international accounting firms are already acting as change agents, and will almost certainly continue to do so. Although the author believes specific discussion of the most appropriate role(s) of the firms as international change agents is not appropriate in this paper, the paper does provide a

basic context to help understand the potential influence of these firms in international accounting.

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